



October 21, 2013
Company Report
Rating: HOLD
TP: HK\$ 27.72

H-Share price (HK\$)	27.40
Est. share price return	1.17%
Est. dividend yield	1.42%
Est. total return	2.59%

Previous Rating & TP	(Initiation)
Previous Report Date	N/A

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Key Data

52Wk H/L(HK\$)	30.25 / 15.34
Issued shares (mn)	1,084
H-Shares (mn)	456
Domestic Share (mn)	628
Market cap	
H-shares (HK\$ mn)	12,494
Domestic Shares (HK\$ mn)	17,207
3-mth avg daily turnover (HK\$ mn)	65.3
Major shareholder(s) (%):	
CSR (1766 HK)	56.17

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Electrical systems (Locomotives)	31.12
Electrical systems (EMUs)	12.02
Electrical systems (Metro)	16.17
Electrical systems (Others)	25.82
Electric components and others	14.87

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	9.84	9.20
3-mth	40.46	29.05
6-mth	25.23	18.56

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

CSR Times Electric (3898 HK)

Increased competition slash margins; initiate HOLD

Although railway investment will recover from trough in 2013, rolling stock investment in 2014-15 is expected to remain sluggish due to tightened liquidity in CRC. Furthermore, with the increasing number of industry newcomers, profitability of CSR Times Electric is weakening. Our target valuation at 2.95x of FY13E P/B, equivalent to a 53% premium over CSR's target valuation at 1.93x FY13E P/B. Considering its thinning profit margin, we initiate with a **HOLD** rating on the counter with TP at HK\$ 27.72.

Slowdown in major business segments. Although we expect the rolling stock industry to bottom out with the recovery of railway construction, the growth in railway rolling stock market will remain sluggish in 2014-15 on declining profitability and high debts in CRC. We estimate that the railway rolling stock segments' revenue to grow at 7.48% CAGR in FY13E-15E.

Competition is expected to stay keen in the future. GPM is weakening under the increasing number of newcomers in the rolling stock electrical system market including China Automation Group (CAG, 569 HK) as well as the lukewarm industry sentiment. Considering the slowdown in rolling stock purchases from CRC, we believe profitability of CSR Times Electric will not improve significantly in FY13E-15E compared to that in FY11-12.

Profitability is weakening. Net margin dropped from 23.63% in FY06 to 17.07% in FY12 (1Q-3Q13: 17.68%). Weakening contribution from CSR means that CSR Times Electric will be increasingly subject to market competition in the future. We expect its profitability will continue to be under pressure going forward. Furthermore, although revenue was up 10.11% YoY in the 9M13, the trade and bill receivables increased 57.94% YoY to RMB 5,599mn at end-September 2013. It reflects the CSR Times Electric to loosen the credit sales toward its customers. The measure of trading off earning quality to quantity is not sustainable.

Stock placing for expand working capital. On Oct 21, the Group announced that it would issue 91.2mn new H-shares. The placing is expected to be completed by end-2013. A total of HK\$ 2,263mn will be raised for the procurement of raw materials and machinery equipment. The Group's decision to utilize equity financing instead of borrowings may reflect its tight liquidity resulted from its high receivables level – a situation which we believe will not improve in the short term.

Initiate with HOLD recommendation. The average forward P/B premium of CSR Times Electric over CSR (1766 HK) since 2011 was 53%. Our target valuation at 2.95x of FY13E P/B is equivalent to a 53% premium over CSR's target valuation at 1.93x FY13E P/E. The counter is currently trading at 2.92x of FY13E P/B (fully diluted), 1.02% below our target P/B only. Considering the shrinking profitability and the increased exposure to market competition, we initiate with a **HOLD** rating on CSR Times Electric with TP at HK\$27.72.

Risk factors: 1) Increased competition from domestic newcomers; 2) Shrinking GPM due to stiffening business environment; 3) Liquidity tightening under prudent monetary policy

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	7,079	7,153	7,693	8,745	10,048
Chg (% YoY)	20.45	1.05	7.55	13.68	14.90
Net Income (RMB mn)	1,184	1,221	1,225	1,432	1,623
Chg (% YoY)	39.26	3.09	0.29	16.92	13.35
EPS (RMB)	1.092	1.126	1.042	1.218	1.381
P/E (x)	-	19.54	21.13	18.07	15.94
BVPS (RMB)	4.904	5.698	7.539	8.444	9.460
P/B (x)	-	3.86	2.92	2.61	2.33
DPS (RMB)	0.340	0.350	0.313	0.365	0.414
Yield (%)	-	1.59	1.42	1.66	1.88
ROAE (%)	24.20	21.24	16.28	15.24	15.42
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI estimates

Quick expansion of urban rail

Business of electrical system for urban rail (reported as train-borne electrical systems (Metro) segment) grew strongly under China's rapid urban railway development. The segment revenue grew 63.26% CAGR from RMB 49mn in FY06 to RMB 928mn in FY12 (1H13: RMB 421mn). With the high base in FY12, we believe growth would slow slightly but remain healthy in the future. We estimate the segment to grow at 39.19% CAGR over FY13E-15E. Contribution of the segment, as a percentage of total revenue, increased from 3.90% in FY06 to 12.97% in FY12 (1H13: 16.17%). Its contribution is expected to further increase, outpacing the overall revenue growth in CSR Times Electric over FY13E-15E. Growth in urban rail-related business is expected to be partially offset by the slowdown in railway rolling stock segment (train-borne electrical system for locomotive and EMUs).

Exhibit 1: Segment revenue and contribution as percentage of total revenue of urban rail segment in FY06-1H13

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	1H13
Segment revenue (RMB mn)	49	66	130	155	312	495	928	421
Contribution (%)	3.90	4.31	6.12	4.67	5.31	6.99	12.97	16.17

Source(s): Company

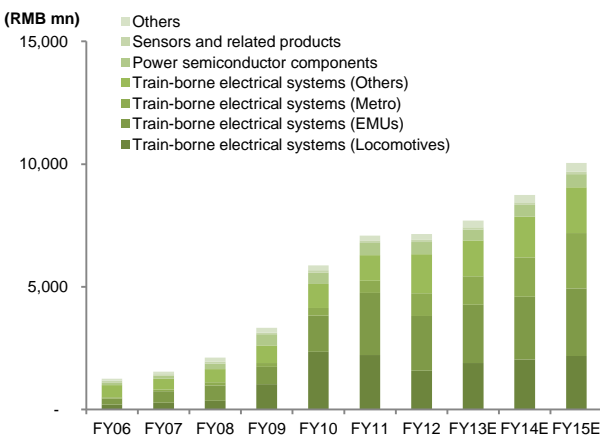
Sluggish railway segments

As railway investment has been recovering in 2013, we expect the railway business segments, which mainly comprises train-borne electrical system for locomotive and EMUs, to bottom out. We estimate the total revenue of the railway business segment to recover from -22.87% YoY in 1H13 to 33.57% YoY in 2H13. Looking forward, With CRC's financial problems, we believe rolling stock purchases in 2014-15 would not increase significantly. We estimate that the segment revenue to grow only at 7.48% CAGR over FY13E-15E, offsetting much of the growth in urban rail segment.

Overall revenue growth to slow

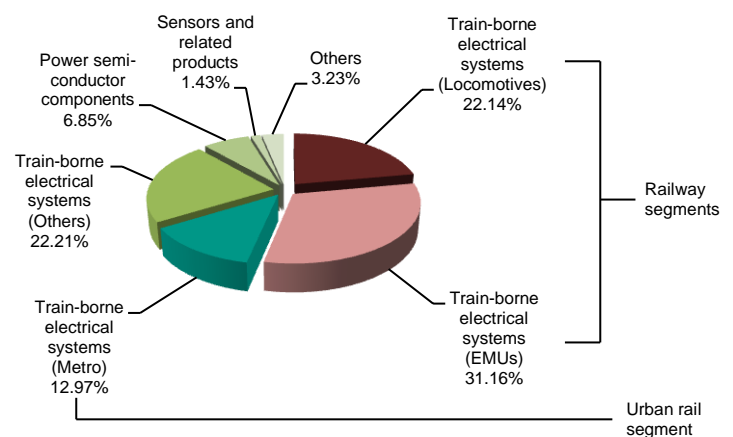
As railway segment slows, we believe the Group's overall revenue growth to decelerate in FY13E-15E, comparing with that in FY08-10. We estimate the overall revenue of the Group to grow at 14.29% CAGR over FY13E-15E vs. that in FY08-10 at 66.52% CAGR

Exhibit 2: Revenue breakdown and projection for CSR Times Electric in FY06-15E



Source(s): Company, ABCI Securities estimates

Exhibit 3: Revenue breakdown of CSR Times Electric in FY12 (%)



Source(s): Company, ABCI Securities

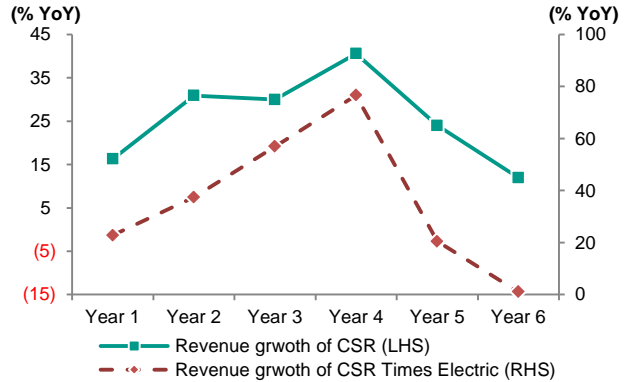
Positive correlation with CSR

CSR Times Electric, as one of the suppliers of its parent company, CSR Corporation Limited (CSR, 1766 HK), we see its revenue growth is highly correlated with that of CSR. The correlation between the revenue growth of revenue of CSR and CSR Times Electric was 93.33% in FY06-12. With contribution from CSR Group reducing with time (see more details in the following part), the correlation is expected to weaken in the future.

Exhibit 4: Correlation of revenue growth in CSR and CSR Times Electric in FY07-12

		CSR Revenue (RMB mn)	Growth (% YoY)	CSR Times Electric Revenue (RMB mn)	Growth (% YoY)	
Year 1	FY07	26,804	16.30	FY07	1,542	22.76
Year 2	FY08	35,093	30.93	FY08	2,119	37.46
Year 3	FY09	45,621	30.00	FY09	3,327	56.96
Year 4	FY10	64,132	40.58	FY10	5,877	76.67
Year 5	FY11	79,517	23.99	FY11	7,079	20.45
Year 6	FY12	89,019	11.95	FY12	7,153	1.05
				Correlation(%)¹	93.33	

1: The correlation is calculated from "growth of revenue of CSR from FY07-12" and "growth of revenue of CSR Times Electric from FY07-12"

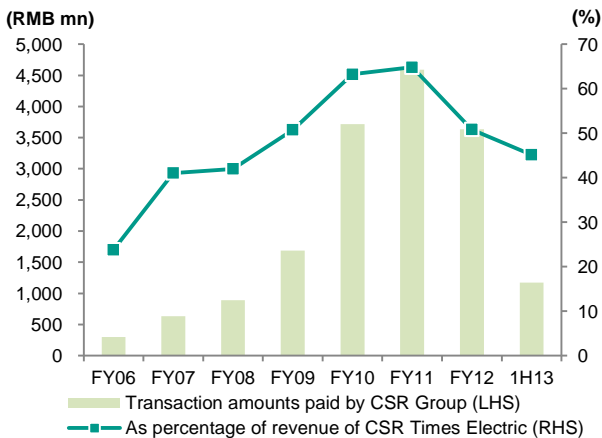
Exhibit 5: Revenue growth in revenue of CSR and CSR Time Electric in FY07-12


Source(s): Companies, ABCI Securities

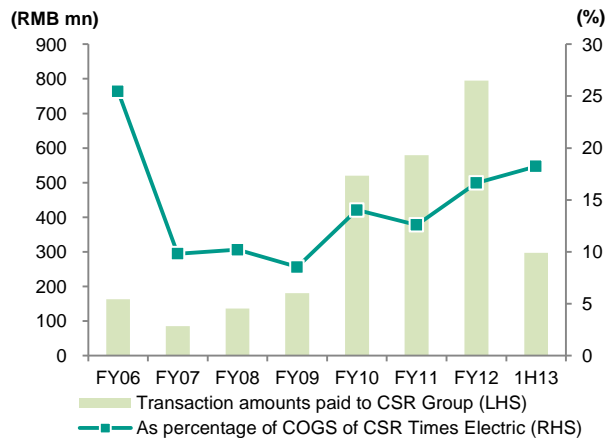
Source: Companies, ABCI Securities

Diminishing contribution from CSR Group

CSR Times Electric is mainly engaged in the manufacturing and sales of locomotive train power converters, control systems and other train-borne electrical systems of urban rail and railway rolling stocks. It is one of the component suppliers of the CSR Group (including CSR). CSR Times Electric has been supplying certain parts/components and services to the CSR Group for years. However, the amount of orders from CSR Group has been declining since FY11, showing that its reliance on CSR Times Electric as a supplier is lessening.

Exhibit 6: Payment by CSR Group (excluding CSR Times Electric) to CSR Times Electric in FY06-1H13


Source(s): Company, ABCI Securities

Exhibit 7: Payment to CSR Group (excluding CSR Times Electric) in FY06-1H13


Source(s): Company, ABCI Securities

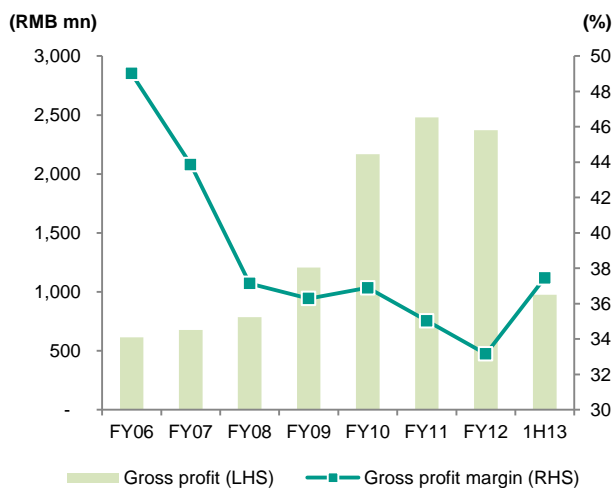
Cost ratio is improving

SG&A as percentage of revenue in CSR Times Electric has been improving from 27.35% in FY06 to 16.64% in FY12 (1H13: 19.09%). Selling and distribution cost ratio improved from 9.45% in FY06 to 4.63% in FY12 (1H13: 5.03%). General administrative cost ratio improved from 17.90% in FY06 to 12.01% in FY12 (1H13: 14.06%). Under zealous cost control, we expect the cost ratio of CSR Times Electric to stay flat in the range of 15%-17% in FY13E-15E.

Profitability is thinning

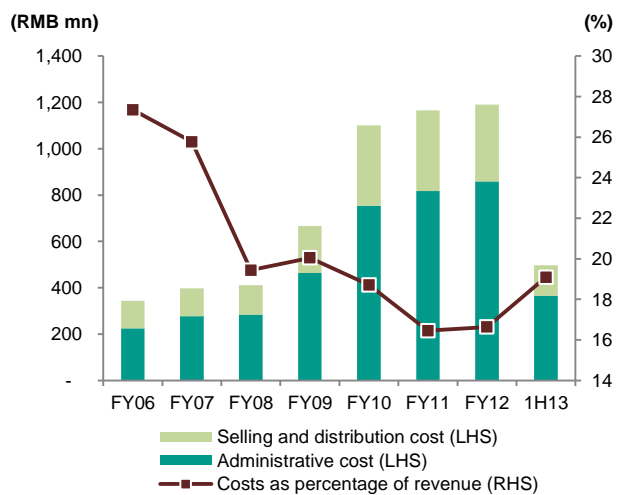
Although the SG&A cost ratio is improving, profitability of CSR Times Electric is weakening. Gross profit margin (GPM) reduced from 49.01% in FY06 to 33.16% in FY12 (1H13: 37.46%), while net margin dropped from 23.63% in FY06 to 17.07% in FY12 (1H13: 15.37). Shrinking contribution from CSR will subject the Group more to market competition in the future, which may be detrimental to its profitability.

Exhibit 8: Gross profit and gross profit margin of CSR Times Electric in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 9: Selling and distribution cost and administrative cost of CSR Times Electric and the costs as percentage to revenue in FY06-1H13



Source(s): Company, ABCI Securities

Exhibit 10: Profitability comparison of CSR Times Electric and CSR in FY06-1H13

		FY06	FY07	FY08	FY09	FY10	FY11	FY12	1H13
Revenue (RMB mn)	CSR Times Electric	1,256	1,542	2,119	3,327	5,877	7,079	7,153	2,603
	CSR	23,047	26,804	35,093	45,621	64,132	79,517	89,019	36,441
Gross profit margin (%)	CSR Times Electric	49.01	43.87	37.14	36.29	36.90	35.04	33.16	37.46
	CSR	14.07	14.99	16.57	15.71	17.13	18.70	17.70	16.77
SG&A-to-revenue (%)	CSR Times Electric	27.35	25.77	19.44	20.05	18.72	16.46	16.64	19.09
	CSR	10.44	12.22	11.88	11.83	12.15	12.26	12.18	11.85
Net income margin (%)	CSR Times Electric	23.63	22.53	19.93	15.96	14.47	16.73	17.07	15.37
	CSR	2.36	2.29	3.94	3.68	3.94	4.86	4.50	4.01

Source(s): Companies



Receivable rocket

Although revenue and net income were up 10.11% YoY and 34.98% YoY in 1-3Q13, respectively, the trade and bill receivables increased 57.94% YoY from RMB 3,545mn at end Sept 2012 to RMB 5,599mn at end Sept 2013 (End 2012: RMB 3,627mn). It reflects the CSR Times Electric to loosen the credit sales toward its customers. The measure of trading off earning quality to quantity is not unsustainable. We believe it will limit the earnings growth of CSR Times Electric in FY14E-15E.

Exhibit 11: Key financial summary of CSR Times Electric in 1-3Q13

	1-3Q12	FY12	1-3Q13	(% YoY)
Revenue (RMB mn)	4,362	7,153	4,803	10.11
Gross Profit (RMB mn)	1,417	2,372	1,795	26.68
GPM (%)	32.49	33.16	37.37	4.89ppt
Net profit (RMB mn)	629	1,221	849	34.98
Net profit margin (%)	14.42	17.07	17.68	3.26ppt
Trade and bill receivables (RMB mn)	3,545	3,627	5,599	57.94
Trade and bill receivables / revenue (%)	81.27	50.71	116.57	35.30ppt

Source(s): Company

Exhibit 12: 1H13 results summary of CSR Times Electric

	1H11	2H11	1H12	2H12	1H13	Change (% YoY)	Change (% HoH)
Revenue (RMB mn)	4,233	2,846	3,174	3,979	2,603	(17.99)	(34.58)
Train-borne electrical systems (Locomotives)	1,480	734	352	1,232	810	130.11	(34.25)
Train-borne electrical systems (EMUs)	1,628	910	1,104	1,125	313	(71.65)	(72.18)
Train-borne electrical systems (Metro)	246	249	482	446	421	(12.66)	(5.61)
Train-borne electrical systems (Others)	454	583	759	830	672	(11.46)	(19.04)
Electric components and others	425	370	477	346	387	(18.87)	11.85
Gross Profit (RMB mn)	1,620	860	1,104	1,268	975	(11.68)	(23.11)
GPM (%)	38.27	30.23	34.78	31.87	37.46	2.67ppt	5.59ppt
Major cost (RMB mn)							
Selling and distribution cost	199	148	143	188	131	(8.39)	(30.32)
Administrative cost ¹	381	437	434	425	366	(15.67)	(13.88)
Cost ratio (%)							
Selling and distribution cost	4.70	5.22	4.51	4.72	5.03	0.53ppt	0.31ppt
Administrative cost ¹	9.00	15.35	13.67	10.68	14.06	0.39ppt	3.38ppt
Net profit (RMB mn)	938	246	546	675	400	(26.74)	(40.74)
Net profit margin (%)	22.16	8.66	17.20	16.96	15.37	(1.84ppt)	(1.60ppt)

1: Including research and development expenses

Source(s): Company

Outlook and recommendation

Subdued outlook for CSR Times Electric

Although we expect the Group's revenue to grow in 2H13 on new orders from CRC, we expect growth in the rolling stock market to remain weak in 2014-15 due to CRC's weak financials.

Although effective cost control is lowering the SG&A cost ratio, GPM is weakening with more newcomers, including China Automation Group, entering the rolling stock electrical system market. Considering the slowdown in rolling stock purchases from CRC, we believe profitability of CSR Times Electric will not improve significantly in FY13E-15E compared to FY11-12.

Stock placing to expand working capital

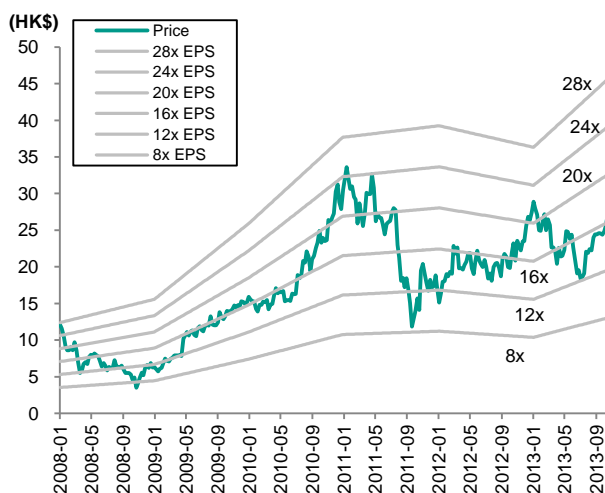
On Oct 21, the Group announced that it would issue 91.2mn new H-shares. The placing is expected to be completed by end-2013. A total of HK\$ 2,263mn will be raised for the procurement of raw materials and machinery equipment. The Group's decision to utilize equity financing instead of borrowings may reflect its tight liquidity resulted from its high receivables level – a situation which we believe will not improve in the short term.

Initiate HOLD with TP at HK\$27.72

The average forward P/B premium of CSR Times Electric over CSR (1766 HK) since 2011 was 53%. We believe the premium has been driven by higher margin of the train-borne electrical system business in CSR Times Electric. Our target valuation at 2.95x of FY13E P/B reflects a 53% premium over our target valuation for CSR at 1.93x FY13E P/B.

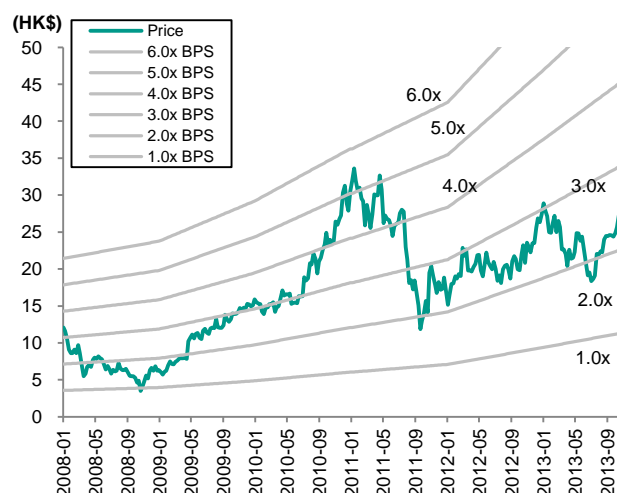
Although the stock is trading at premium, the profitability is trending downwards. The counter is currently trading at 2.92x of FY13E P/B (fully diluted), only 1.02% below our target P/B. Based on its lukewarm industry outlook and stiffening market competition, we initiate with a **HOLD** rating on CSR with TP at HK\$27.72.

Exhibit 13: P/E band of CSR Times Electric (HK\$) in 1M08-10M13



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 14: P/B band of CSR Times Electric (HK\$) in 1M08-10M13



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 15: Peer valuation table for rolling stock manufacturer

Company	Ticker	Mkt cap (HK\$ mn)	As of 20/08/2013		P/E (x)		EPS (%YoY)		P/B (x)		ROAE (%)	
			CRY	Share Price	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Domestic Rolling Stock Maker												
CSR-H	1766 HK	11,739	HKD	5.80	16.02	15.02	(2.77)	6.64	1.81	1.65	11.76	11.49
CSR-A	601766 CH	62,785	RMB	4.19	14.40	13.51	(2.77)	6.64	1.63	1.48	11.76	11.49
CSR Times Electric	3898 HK	29,709	HKD	27.40	21.13	18.07	(7.49)	16.92	2.92	2.61	16.28	15.24
CNR	601299 CH	59,735	RMB	4.55	12.36	10.61	8.24	16.58	1.24	1.13	10.48	11.37
Zhuzhou Times	600458 CH	9,318	RMB	11.12	29.03	22.33	23.55	30.03	2.40	2.40	8.82	8.58
Changchun Eurasia Group	600697 CH	4,303	RMB	21.26	13.67	10.98	22.44	24.50	2.49	2.08	22.43	20.64
Jinxi Axle	600495 CH	7,434	RMB	13.93	30.28	21.77	15.00	39.13	1.37	1.85	11.00	7.24
Sector Weighted Average					16.29	14.12	2.65	14.40	1.77	1.64	12.14	11.95
International Rolling Stock Maker												
Alstom	ALO FP	85,312	EUR	26.07	8.74	7.79	12.11	12.27	1.41	1.25	19.78	16.34
Bombardier Inc	BBD/A CN	66,095	CAD	4.99	12.28	9.47	23.44	29.62	4.12	3.06	44.31	35.75
CAF	CAF SM	13,820	EUR	380.10	12.44	10.83	5.31	14.84	1.58	1.44	14.89	13.88
Vossloh A.G.	VOS GR	9,920	EUR	70.19	23.13	16.78	(38.56)	37.86	1.74	1.65	7.70	10.06
Faiveley Transport	LEY FP	8,449	EUR	54.51	12.32	11.34	6.12	8.66	1.33	1.22	13.11	11.26
Nippon Sharyo	7102 JP	6,439	JPY	554.00	11.76	14.15	325.47	(16.88)	1.26	1.16	2.03	8.55
Kinki Sharyo	7122 JP	1,784	JPY	326.00	(14.05)	112.41	(436.72)	(112.50)	0.66	0.66	(4.62)	0.59
Sector Weighted Average					11.02	10.39	18.98	17.46	2.36	1.90	26.14	21.89
Overall Weighted Average					13.60	12.22	10.96	15.96	2.07	1.77	19.27	17.01

1: EPS turns positive in FY14E

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue¹	7,079	7,153	7,693	8,745	10,048
Train-borne electrical systems (Locomotives)	2,214	1,584	1,896	2,032	2,178
Train-borne electrical systems (EMUs)	2,538	2,229	2,375	2,558	2,756
Train-borne electrical systems (Metro)	495	928	1,163	1,614	2,253
Train-borne electrical systems (Others)	1,037	1,589	1,461	1,651	1,866
Electric components and others	795	823	798	891	996
COGS	(4,599)	(4,781)	(5,111)	(5,817)	(6,718)
Gross profit	2,480	2,372	2,582	2,929	3,330
SG&A	(1,165)	(1,190)	(1,287)	(1,402)	(1,593)
Other income and gains	66	219	238	265	293
Pre-tax profit	1,381	1,401	1,533	1,792	2,031
Income tax	(194)	(178)	(307)	(358)	(406)
Net profit	1,187	1,223	1,226	1,433	1,624
Profit attributable to:					
Minority interests	3	2	1	1	1
Equity shareholders of the Company	1,184	1,221	1,225	1,432	1,623
EPS (RMB)	1.092	1.126	1.042	1.218	1.381
DPS (RMB)	0.340	0.350	0.313	0.365	0.414
EBIT	1,414	1,417	1,540	1,797	2,035
EBITDA	1,618	1,574	1,759	2,025	2,271

1: Revenue is excluding business tax and surcharges
Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	6,538	7,203	10,704	10,790	11,939
Cash and equivalent	2,158	2,319	3,490	3,222	3,889
Trade and bill receivables	2,171	3,628	4,803	5,021	5,440
Inventories	1,669	1,110	2,251	2,371	2,415
Other current assets	541	146	161	177	194
Non-current assets	2,116	2,447	2,618	3,252	4,390
Property, plant and equipment	1,503	1,701	1,801	1,873	1,938
Intangible assets	259	266	274	285	297
Long-term investments	203	255	281	309	339
Other non-current assets	151	225	262	785	1,815
Total assets	8,654	9,650	13,321	14,041	16,328
Current liabilities	2,920	3,032	3,964	3,603	4,672
Trade and bill payables	1,355	1,988	2,773	2,326	3,195
Receipts in advance	351	292	404	411	525
Short term borrowings	639	41	5	5	5
Other current liabilities	574	711	782	860	946
Non-current liabilities	297	305	360	375	399
Long-term borrowings	50	28	55	40	30
Other non-current liabilities	247	277	305	335	369
Total liabilities	3,216	3,337	4,323	3,978	5,070
Minority interests	121	135	136	137	138
Shareholders' equities	5,317	6,178	8,862	9,926	11,120
BVPS (RMB)	4.904	5.698	7.539	8.444	9.460

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax	1,381	1,401	1,533	1,792	2,031
Changes in depreciation and amortization	204	157	219	228	236
Changes in working capital	(368)	(341)	(1,495)	(803)	431
Financial cost	35	16	7	6	4
Income tax paid	(110)	(106)	(279)	(328)	(373)
Others	100	120	-	-	-
CF Operating	1,242	1,247	(15)	895	2,329
Increase in PP&E	(312)	(337)	(300)	(280)	(280)
Increase in intangible assets	(56)	(25)	(27)	(30)	(33)
Others	(250)	378	-	-	-
CF Investing	(618)	16	(327)	(310)	(313)
Capital injection	24	10	1,818	-	-
Net debt financing	187	(620)	(9)	(15)	(10)
Dividend payout	(331)	(369)	(380)	(367)	(430)
Interest paid	(35)	(16)	(7)	(6)	(4)
Others	16	(24)	91	(464)	(905)
CF Financing	(139)	(1,019)	1,513	(853)	(1,349)
Net change in cash	484	244	1,171	(268)	668
Cash at the beginning	1,681	2,158	2,319	3,490	3,222
Adjustment (Time deposit & FX effect)	(8)	(83)	-	-	-
Cash at the end	2,158	2,319	3,490	3,222	3,889

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Sales mixed (%)					
Train-borne electrical systems (Locomotives)	31.28	22.14	24.65	23.23	21.67
Train-borne electrical systems (EMUs)	35.85	31.16	30.87	29.25	27.43
Train-borne electrical systems (Metro)	6.99	12.97	15.11	18.45	22.42
Train-borne electrical systems (Others)	14.65	22.21	18.99	18.88	18.57
Electric components and others	11.23	11.51	10.38	10.19	9.91
Profit & loss ratios (%)					
Gross margin	35.04	33.16	33.56	33.49	33.14
Net profit margin	16.73	17.07	15.92	16.37	16.15
Effective tax rate	14.04	12.71	20.00	20.00	20.00
Growth (%)					
Revenue	20.45	1.05	7.55	13.68	14.90
Gross profit	14.37	(4.37)	8.84	13.45	13.71
EBIT	41.55	0.24	8.68	16.71	13.22
EBITDA	24.94	(2.69)	11.77	15.12	12.13
Net profit	39.26	3.09	0.29	16.92	13.35
Balance sheet ratios					
Current ratio (x)	2.24	2.38	2.70	2.99	2.56
Quick ratio (x)	1.67	2.01	2.13	2.34	2.04
Cash ratio (x)	0.74	0.76	0.88	0.89	0.83
Trade and bill receivables days	99.60	147.95	200.00	205.00	190.00
Trade and bill payables turnover days	101.75	127.61	170.00	160.00	150.00
Inventory turnover days	129.34	106.06	120.00	145.00	130.00
Total debt / equity ratio (%)	12.67	1.09	0.67	0.45	0.31
Net debt / equity ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Returns (%)					
ROAE	24.20	21.24	16.28	15.24	15.42
ROAA	15.05	13.34	10.66	10.47	10.69
Payout ratio	31.12	31.08	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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